

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Hastings Area School System	County Barry
Fiscal Year End June 30, 2006	Opinion Date November 8, 2006	Date Audit Report Submitted to State December 4, 2006	

We affirm that:

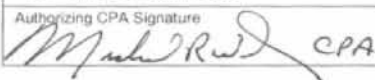
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No comments and recommendations	
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit Reports	
Certified Public Accountant (Firm Name) Norman & Paulsen, P.C.		Telephone Number 269-651-3228	
Street Address 127 W. Chicago Road		City Sturgis	State Zip MI 49091
Authorizing CPA Signature  CPA		Printed Name Michael R. Wilson	
		License Number 1101017570	

HASTINGS AREA SCHOOL SYSTEM
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2006

Hastings Area School System

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Hastings Area School System

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Hastings Area School System, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hastings Area School System, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hastings Area School System's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hastings Area School System as of June 30, 2006, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The administration's discussion and analysis and budgetary comparison schedule as identified in the table of contents, are not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

Board of Education
Hastings Area School System

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hastings Area School System's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2006, on our consideration of Hastings Area School System's internal control over financial reporting and on our tests of it's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Norman J. Paulson, P.C.

November 8, 2006

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2006

This section of Hastings Area School System's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Hastings Area School System financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, the Capital Projects Fund and the Debt Service Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students, parents and other programs.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statement

Fund Financial Statements

Notes to the Basic Financial Statement

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Reporting the School District as a whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED JUNE 30, 2006

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED JUNE 30, 2006

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its agency funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2006 and 2005:

TABLE I

	June 30,	
	<u>2006</u>	<u>2005</u>
Assets		
Current and other assets	\$ 8,789,603	\$ 9,179,330
Capital assets - Net of accumulated depreciation	32,513,340	33,088,953
Other noncurrent assets	<u>165,093</u>	<u>112,143</u>
Total assets	41,468,036	42,380,426
Liabilities		
Current liabilities	8,582,778	8,741,899
Long-term liabilities	<u>26,280,540</u>	<u>27,832,106</u>
Total liabilities	34,863,318	36,574,005
Net Assets		
Invested in property and equipment - net of related debt	5,064,673	4,109,901
Restricted for debt service	616,842	504,244
Unrestricted	<u>923,203</u>	<u>1,192,276</u>
Total net assets	<u>\$ 6,604,718</u>	<u>\$ 5,806,421</u>

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED JUNE 30, 2006

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$6,604,718 at June 30, 2006. Capital assets, net of related debt totaling \$5,064,673 compares the original cost, less depreciation of the School District's capital assets to long-term debt. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$923,203 was unrestricted.

The \$923,203 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years ended June 30, 2006 and 2005.

TABLE 2

	Year Ended June 30,	
	2006	2005
Revenue		
Program revenue:		
Charges for services	\$ 1,216,999	\$ 1,105,508
Grants and categoricals	2,949,572	2,562,898
General revenue:		
Property taxes	5,484,123	5,308,616
State foundation allowance	19,218,775	19,037,366
Interest and investment earnings	90,817	50,216
Gain on sale of capital assets	9,981	106,282
Sale of broadband rights	575,000	-
Other	244,632	488,935
Total revenue	29,789,899	28,659,821

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED JUNE 30, 2006

Function/Program Expenses	Year Ended June 30,	
	2006	2005
Instruction	16,398,818	16,260,214
Support services	7,751,373	7,067,626
Food services	904,736	813,771
Athletics	393,837	345,740
Community services	607,267	521,329
Interest on long-term debt	1,517,656	1,511,727
Depreciation (unallocated)	<u>1,417,915</u>	<u>1,535,170</u>
Total expenses	<u>28,991,602</u>	<u>28,055,577</u>
Change in net assets	<u>\$ 798,297</u>	<u>\$ 604,244</u>

As reported in the statement of activities, the cost of all governmental activities this year was \$28,991,602. Certain activities were partially funded from those who benefited from the programs \$(1,216,999) or by other governments and organizations that subsidized certain programs with grants and categoricals \$(2,949,572). We paid for the remaining "public benefit" portion of our governmental activities with \$5,484,123 in taxes, \$19,218,775 in State foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets of \$798,297. Key reasons for the change in net assets were capitalizable expenditures and the repayment of bond principal and other long-term obligations and proceeds in the amount of \$575,000 for the sale of broadband rights. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 16.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted sources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED JUNE 30, 2006

As the School District completed this year, the governmental funds reported a combined fund balance of \$2,006,779, which is a decrease of \$290,793 from last year.

In the General Fund, our primary operating fund, the fund balance decreased \$278,759 to \$1,009,205. The General Fund fund balance has been reserved for inventories - \$44,395; designated for future projects - \$400,000; and undesignated - \$664,810.

In the Capital Projects Fund the fund balance decreased \$88,986 to \$11,756. The purpose of this fund is to continue to spend the fund balance to complete the voter approved projects.

Our Debt Service Fund reflected a fund balance increase of \$77,768 and ended the year at \$822,342. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Fund fund balance is reserved since it can only be used to pay debt service obligations.

Our Food Service Fund fund balance decreased \$816 to \$158,343.

Our Athletics Fund is maintained at a zero fund balance and was supported by an operating transfer from the General Fund of \$245,775.

Our Community Center Fund fund balance remained at \$5,133 and was supported by an operating transfer from the General Fund of \$114,073.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

Budgeted revenues were increased \$690,979, to better reflect state per student foundation funding and adjustments to categorical funding. Actual revenues were within \$15,592 of the final budgeted revenues or 0.06 percent.

Budgeted expenditures were increased \$631,308 to better reflect expenditures funded by increased revenues. Actual expenditures ended the year over the final budget by \$107,821 or 0.43 percent.

There were no significant variances between the final budget and actual amounts.

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED JUNE 30, 2006

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the School District had \$50,976,600 invested in a broad range of capital assets, including land, buildings, buses and furniture and equipment. This amount represents a net increase (including additions and disposals) of \$618,489, or 1.2 percent, from last year. The majority of this increase was building construction projects - \$281,484, funded out of the Capital Projects Fund and the purchase of six school buses at a total cost of \$377,376.

	<u>2006</u>	<u>2005</u>
Land	\$ 253,410	\$ 253,410
Buildings and improvements	42,971,778	42,274,256
Buses and other vehicles	2,126,084	1,942,808
Furniture and equipment	5,625,328	5,461,604
Construction in progress	<u>-</u>	<u>426,033</u>
Total capital assets	50,976,600	50,358,111
Less accumulated depreciation	<u>18,463,260</u>	<u>17,269,158</u>
Net capital assets	<u>\$ 32,513,340</u>	<u>\$ 33,088,953</u>

Debt

At the end of this year, the School District had \$27,463,283 in bonds outstanding versus \$28,840,733 in the previous year - a change of 4.8 percent. (More detailed information about the District's long-term liabilities is presented in Note 9 to the financial statements.)

At the end of this year the School District had \$150,477 in notes payable outstanding versus \$250,462 in the previous year. During the year the School District paid \$99,985 against principal.

At the end of this year the School District had employee severance pay agreements outstanding of \$261,234 versus \$360,722 in the previous year. During the year the School District made payments totaling \$99,488.

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt is significantly below the statutorily imposed limit.

HASTINGS AREA SCHOOL SYSTEM

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED JUNE 30, 2006

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

The financial status of the State of Michigan may result in future Executive Order Cuts from the Governor.

Increases in the employer contribution to the Michigan Public School Employees Retirement System, as well as increased premiums for health insurance will significantly affect the District's finances.

Increases in heating fuel costs and transportation fuel costs.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Department, 232 West Grand Street, Hastings, Michigan 49058.

HASTINGS AREA SCHOOL SYSTEM

STATEMENT OF NET ASSETS JUNE 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 4,859,067
Accounts receivable	38,891
Taxes receivable (net)	-
Due from other governmental units	3,820,722
Inventories	<u>70,923</u>
Total current assets	8,789,603
Noncurrent Assets:	
Capital assets	50,976,600
Less: accumulated depreciation	<u>18,463,260</u>
Net capital assets	32,513,340
Issuance cost for bonds, net	<u>165,093</u>
Total noncurrent assets	<u>32,678,433</u>
Total assets	41,468,036
<u>LIABILITIES</u>	
Current Liabilities:	
Short-term note payable	4,177,000
Accounts payable	189,091
Accrued payroll	1,466,388
Accrued benefits	792,353
Accrued interest	343,865
Deferred revenue	19,627
Accrued severance pay	99,490
Notes payable, due within one year	49,350
Bonds payable, due within one year	<u>1,445,614</u>
Total current liabilities	8,582,778
Noncurrent Liabilities:	
Accrued severance pay	161,744
Notes payable	101,127
Bonds payable, net	<u>26,017,669</u>
Total noncurrent liabilities	<u>26,280,540</u>
Total liabilities	34,863,318
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	5,064,673
Restricted for debt service	616,842
Unrestricted	<u>923,203</u>
Total net assets	<u>\$ 6,604,718</u>

See Notes to Financial Statements

HASTINGS AREA SCHOOL SYSTEM

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2006

Functions/Programs	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Activities Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 16,398,818	\$ 2,750	\$ 2,398,586	\$ (13,997,482)
Support services	7,751,373	103,681	51,859	(7,595,833)
Food services	904,736	467,351	456,597	19,212
Athletics	393,837	136,886	11,000	(245,951)
Community services	607,267	506,331	-	(100,936)
Interest on long-term debt 1,517,656	-	31,530	(1,486,126)	
Depreciation (unallocated)	<u>1,417,915</u>	<u>-</u>	<u>-</u>	<u>(1,417,915)</u>
Total Governmental activities	<u>\$ 28,991,602</u>	<u>\$ 1,216,999</u>	<u>\$ 2,949,572</u>	(24,825,031)
General revenues:				
Taxes				
Property taxes, levied for general operations				2,705,936
Property taxes, levied for debt service				2,778,187
State aid not restricted to specific purposes				19,218,775
Interest and investment earnings				90,817
Gain on sale of assets				9,981
Sale of broadband rights				575,000
Other				<u>244,632</u>
Total general revenues				<u>25,623,328</u>
Change in Net Assets				798,297
Net Assets - Beginning of year				<u>5,806,421</u>
Net Assets - End of year				<u>\$ 6,604,718</u>

See Notes to Financial Statements

HASTINGS AREA SCHOOL SYSTEM

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 3,872,814	\$ 11,756	\$ 822,342
Accounts receivable	33,444	-	-
Due from other governmental units	3,820,722	-	-
Due from other funds	-	-	-
Inventories	<u>44,395</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 7,771,375</u>	<u>\$ 11,756</u>	<u>\$ 822,342</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Short-term note payable	\$ 4,177,000	\$ -	\$ -
Accounts payable	140,211	-	-
Accrued payroll	1,466,388	-	-
Accrued benefits	792,353	-	-
Due to other funds	33,053	-	-
Accrued interest	138,365	-	-
Deferred revenue	<u>14,800</u>	<u>-</u>	<u>-</u>
Total liabilities	6,762,170	-	-
Fund Balances:			
Reserved:			
Inventories	44,395	-	-
Debt service	-	-	822,342
Capital projects	-	11,756	-
Unreserved:			
Designated for future projects	400,000	-	-
Undesignated	<u>564,810</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>1,009,205</u>	<u>11,756</u>	<u>822,342</u>
Total liabilities and fund balances	<u>\$ 7,771,375</u>	<u>\$ 11,756</u>	<u>\$ 822,342</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds	Total
\$ 152,155	\$ 4,859,067
5,447	38,891
-	3,820,722
33,053	33,053
<u>26,528</u>	<u>70,923</u>
<u>\$ 217,183</u>	<u>\$ 8,822,656</u>

\$ -	\$ 4,177,000
48,880	189,091
-	1,466,388
-	792,353
-	33,053
-	138,365
<u>4,827</u>	<u>19,627</u>
53,707	6,815,877

26,528	70,923
-	822,342
-	11,756
-	400,000
<u>136,948</u>	<u>701,758</u>
<u>163,476</u>	<u>2,006,779</u>
<u>\$ 217,183</u>	<u>\$ 8,822,656</u>

HASTINGS AREA SCHOOL SYSTEM

GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total Fund Balances - Governmental Funds \$ 2,006,779

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not
financial resources and are not reported in the funds.

The cost of the capital assets is 50,976,600

Accumulated depreciation is (18,463,260)

Total 32,513,340

Long-term liabilities are not due and payable in the
current period and are not reported in the funds:

Accrued severance pay (261,234)

Notes payable (150,477)

Bonds payable, net (27,463,283)

Issuance cost for bonds, net 165,093

Accrued interest payable on long-term liabilities is not
included as a liability in governmental activities (205,500)

Net assets of governmental activities \$ 6,604,718

See Notes to Financial Statements

HASTINGS AREA SCHOOL SYSTEM

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>
Revenues:			
Local sources	\$ 3,556,290	\$ 192,498	\$ 2,805,374
State sources	20,372,452	-	102,061
Federal sources	777,441	-	-
Interdistrict	<u>449,596</u>	<u>-</u>	<u>-</u>
Total revenues	25,155,779	192,498	2,907,435
Expenditures:			
Instruction	16,469,251	-	-
Supporting services	8,308,539	-	-
Interdistrict	12,679	-	-
Food service	-	-	-
Athletics	-	-	-
Community services	31,017	-	-
Capital outlay	-	281,484	-
Debt service			
Principal retirement	99,985	-	1,420,531
Interest and fiscal charges	153,219	-	1,376,762
Bond issuance costs	<u>-</u>	<u>-</u>	<u>60,680</u>
Total expenditures	<u>25,074,690</u>	<u>281,484</u>	<u>2,857,973</u>
Excess (deficiency) of revenues over expenditures	81,089	(88,986)	49,462
Other financing sources (uses):			
Proceeds from sale of bonds	-	-	3,190,000
Discount on sale of bonds	-	-	(42,003)
Payment to refunded bond escrow agent	-	-	(3,119,691)
Operating transfers in	-	-	-
Operating transfers out	<u>(359,848)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(359,848)</u>	<u>-</u>	<u>28,306</u>
Net change in fund balances	(278,759)	(88,986)	77,768
Fund balances, July 1	<u>1,287,964</u>	<u>100,742</u>	<u>744,574</u>
Fund balances, June 30	<u>\$ 1,009,205</u>	<u>\$ 11,756</u>	<u>\$ 822,342</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds	Total
\$ 1,077,590	\$ 7,631,752
44,915	20,519,428
411,682	1,189,123
<u>-</u>	<u>449,596</u>
1,534,187	29,789,899
-	16,469,251
-	8,308,539
-	12,679
924,764	924,764
393,837	393,837
576,250	607,267
-	281,484
-	1,520,516
-	1,529,981
<u>-</u>	<u>60,680</u>
<u>1,894,851</u>	<u>30,108,998</u>
(360,664)	(319,099)
-	3,190,000
-	(42,003)
-	(3,119,691)
359,848	359,848
<u>-</u>	<u>(359,848)</u>
<u>359,848</u>	<u>28,306</u>
(816)	(290,793)
<u>164,292</u>	<u>2,297,572</u>
<u>\$ 163,476</u>	<u>\$ 2,006,779</u>

HASTINGS AREA SCHOOL SYSTEM

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2006

Net change in Fund Balances - Total Governmental Funds	\$ (290,793)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(1,417,915)
Capital outlay	842,302

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid:

Accrued interest payable beginning of the year	240,330
Accrued interest payable end of the year	(205,500)

Repayments of principal on long-term debt and issuance costs are expenditures in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).

Repayment of principal on long-term debt	4,545,516
Proceeds from sale of bonds	(3,190,000)
Discount on sale of bonds	42,003
Loss on bond refunding	94,691
Bond issuance costs	60,680
Amortization of bond premiums	18,100
Amortization of loss on bond refunding	(32,875)
Amortization of bond issuance costs	(7,730)

Accrued severance pay is reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds.

Accrued voluntary severance plan beginning of year	360,722
Accrued voluntary severance plan end of year	<u>(261,234)</u>

Change in Net Assets of Governmental Activities	<u>\$ 798,297</u>
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See Notes to Financial Statements

HASTINGS AREA SCHOOL SYSTEM
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006

	<u>Agency Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 247,764
Investments	404,967
Accounts receivable	<u>2,749</u>
Total assets	<u>\$ 655,480</u>
<u>LIABILITIES</u>	
Due to school related organizations	<u>\$ 655,480</u>

See Notes to Financial Statements

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Hastings Area School System conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts' reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the district does not contain any component units.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customer or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The school district reports the following major governmental funds:

The General Fund is the school district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

The Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of funds specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The fund is retained until the purpose for which the fund was created has been accomplished.

The Debt Service Fund is used to record tax, interest, and other revenue for payment of principle, interest and other expenditures on the bond issues.

Additionally, the government reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Food Services Fund, Athletic Fund, and Community Center Fund.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The school district does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications - Comparative data is not included in the district's financial statements.

HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School district did not have significant expenditure budget variances.

Capital Projects Fund Compliance - The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of 1351a of the State of Michigan's School Code.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 3 - CASH AND CASH EQUIVALENTS

The School District's cash and cash equivalents at June 30, 2006, are composed of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Deposits	<u>\$ 4,859,067</u>	<u>\$ 247,764</u>	<u>\$ 5,106,831</u>

Deposits consist of checking, savings, and bank municipal investment funds. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$5,525,502. Of that amount, \$249,506 was covered by federal depository insurance coverage or secured and \$3,124,953 was uninsured and uncollateralized. The balance of \$2,151,043 was invested in bank municipal investment funds which are not categorized by risk.

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The School District evaluates each financial institution it deposits School District funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - INVESTMENTS

Michigan Public Acts 217 and 367 of 1982 authorize school districts to invest surplus monies in U.S. bonds and notes, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, U.S. Government repurchase agreements, bankers acceptances, mutual funds, and government pools that are composed of authorized investments.

The School District's investments at June 30, 2006, are composed of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
U.S. Government Agency Bonds	\$ -	\$ 279,024	\$ 279,024
Common and preferred stocks	-	24,658	24,658
Money Market	-	101,285	101,285
	<u>\$ -</u>	<u>\$ 404,967</u>	<u>\$ 404,967</u>

The School District's investments are classified by risk level as investments that are uninsured and unregistered held by the counterparty's trust department or agent in the School District's name.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 5 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue include unearned grant and categorical aid payments received prior to meeting all eligibility requirements in the amount of \$19,627.

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	Balance <u>July 1, 2005</u>	<u>Additions</u>	Disposals and <u>Adjustments</u>	Balance <u>June 30, 2006</u>
Assets not being depreciated - Land	\$ 253,410	\$ -	\$ -	\$ 253,410
Capital assets being depreciated:				
Buildings and building improvements	42,274,256	697,522	-	42,971,778
Buses and other vehicles	1,942,808	407,089	223,813	2,126,084
Furniture and equipment	5,461,604	163,724	-	5,625,328
Construction in progress	<u>426,033</u>	<u>281,484</u>	<u>707,517</u>	<u>-</u>
Subtotal	50,104,701	1,549,819	931,330	50,723,190
Accumulated depreciation:				
Buildings and building improvements	12,522,962	858,860	-	13,381,822
Buses and other vehicles	1,402,535	119,083	223,813	1,297,805
Furniture and equipment	<u>3,343,661</u>	<u>439,972</u>	<u>-</u>	<u>3,783,633</u>
Subtotal	<u>17,269,158</u>	<u>1,417,915</u>	<u>223,813</u>	<u>18,463,260</u>
Net capital assets being depreciated	<u>32,835,543</u>			<u>32,259,930</u>
Net capital assets	<u>\$ 33,088,953</u>			<u>\$ 32,513,340</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due To/From Other Funds:		
Other governmental funds	General Fund	<u>\$ 33,053</u>
Interfund Transfers:		
	Transfer Out:	
	General Fund	
Transfer in:		
Other governmental funds		<u>\$ 359,848</u>

NOTE 8 - SHORT-TERM NOTE PAYABLE

Short-term note payable, Michigan Municipal Bond Authority, due August 18, 2006, interest at 2.98%	<u>\$ 4,177,000</u>
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NOTE 9 - LONG-TERM DEBT

The school district issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district. Other long-term obligations include accumulated severance pay.

Long-term obligation activity can be summarized as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds, net	\$28,840,733	\$ 3,190,000	\$ 4,567,450	\$27,463,283	<u>\$1,445,614</u>
Notes	250,462	-	99,985	150,477	<u>\$ 49,350</u>
Other Obligations	<u>360,722</u>	<u>-</u>	<u>99,488</u>	<u>261,234</u>	<u>\$ 99,490</u>
Totals	<u>\$29,451,917</u>	<u>\$ 3,190,000</u>	<u>\$ 4,766,923</u>	<u>\$27,874,994</u>	

HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 9 - LONG-TERM DEBT - (Continued)

The annual requirement to service the bonds and notes outstanding to maturity, including both principal and interest, are as follows:

Year ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,494,964	\$ 1,226,294	\$ 2,721,258
2008	1,512,513	1,147,353	2,659,866
2009	1,547,140	1,077,946	2,625,086
2010	1,617,956	1,019,772	2,637,728
2011	1,708,811	954,713	2,663,524
Thereafter	<u>20,065,324</u>	<u>5,485,179</u>	<u>25,550,503</u>
	<u>\$27,946,708</u>	<u>\$10,911,257</u>	<u>\$38,857,965</u>

Governmental Activities:

General obligation bonds consist of:

\$4,020,000 2004 Refunding Bonds due in annual installments of \$35,000 to \$1,020,000 through May 1, 2010; interest from 3.00% to 5.00%	\$ 3,045,000
\$7,340,000 1998 Refunding Bonds due in annual installments of \$35,000 to \$775,000 through May 1, 2018; interest from 3.40% to 4.50%	7,050,000
\$6,375,000 1999 Refunding Bonds due in annual installments of \$30,000 to \$805,000 through May 1, 2018; interest from 3.15% to 4.70%	6,150,000
\$1,995,000 2001 School Building and Site Bonds (non-refunded portion) due in annual installments of \$310,000 to \$360,000 through May 1, 2011; interest from 4.00% to 4.30%	1,685,000
\$6,575,000 2005 Refunding Bonds due in annual installments of \$25,000 to \$750,000 through May 1, 2022; interest from 3.00% to 5.00%	6,550,000
\$3,190,000 2006 Refunding Bonds due in annual installments of \$30,000 to \$775,000 through May 1, 2026; interest from 4.00% to 4.125%	3,190,000

HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 9 - LONG-TERM DEBT - (Continued)

General obligation bonds consist of:

\$307,985 1998 School Improvement Bond (Durant Settlement) the annual principal and interest payments are to be paid directly by the State of Michigan	<u>126,231</u>
Total general obligation bonded debt	27,796,231
Less: deferred amount on bond refunding	(535,330)
Less: discount on bond refunding	(42,003)
Plus: premium on bond refunding	<u>244,385</u>
Total bonds payable, net	<u><u>\$ 27,463,283</u></u>

Notes payable consist of:

Land contract payable to real estate company, annual payments of \$20,000 through April 15, 2012, including interest at 4%	\$ 98,505
Note payable to bank, annual payments of \$35,820 through September 1, 2007, including interest at 3.35%, secured by technology equipment	<u>51,972</u>
Total notes payable	<u><u>\$ 150,477</u></u>

Other governmental activity long-term obligations include:

Accumulated severance pay payable monthly from July 25, 2003 through March 25, 2010	<u><u>\$ 261,234</u></u>
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HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 9 - LONG-TERM DEBT - (Continued)

During the fiscal year ended June 30, 2006, Hastings Area Schools issued general obligation bonds of \$3,190,000 with interest rates ranging from 4.00% to 4.125% to advance refund bonds with interest rates ranging from 5.00% to 5.625%. The bonds mature over the period May 1, 2019 through May 1, 2026. The general obligation bonds were issued at a discount after paying issuance costs of \$60,680, the net proceeds were \$3,087,317. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refundings met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

As a result of the advance refundings, the District reduced its total debt service requirements by \$255,882, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$150,252.

NOTE 10- RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for property loss, torts, errors and omissions, and medical claims for certain employee groups. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

HASTINGS AREA SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 11- DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy - Employer contributions to the system result from the implementing effect of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2006, 2005, and 2004 were \$2,395,888, \$2,141,099, and \$1,937,333.

Post Employment Benefits - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

REQUIRED SUPPLEMENTAL INFORMATION

HASTINGS AREA SCHOOL SYSTEM

REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND YEAR ENDED JUNE 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (under) Final Budget</u>
Revenues:				
Local sources	\$ 3,011,322	\$ 3,566,108	\$ 3,556,290	\$ (9,818)
State sources	20,397,076	20,379,862	20,372,452	(7,410)
Federal sources	778,272	776,605	777,441	836
Interdistrict	<u>293,722</u>	<u>448,796</u>	<u>449,596</u>	<u>800</u>
Total revenues	24,480,392	25,171,371	25,155,779	(15,592)
Expenditures:				
Instruction 16,274,584	16,372,382	16,469,251	96,869	
Supporting services	7,767,877	8,297,141	8,308,539	11,398
Community services	30,000	31,017	31,017	-
Debt service	250,500	253,650	253,204	(446)
Interdistrict	<u>12,600</u>	<u>12,679</u>	<u>12,679</u>	<u>-</u>
Total expenditures	<u>24,335,561</u>	<u>24,966,869</u>	<u>25,074,690</u>	<u>107,821</u>
Excess (deficiency) of revenues over expenditures	144,831	204,502	81,089	(123,413)
Other financing sources (uses):				
Operating transfers out	<u>(250,000)</u>	<u>(363,956)</u>	<u>(359,848)</u>	<u>(4,108)</u>
Net change in fund balance	(105,169)	(159,454)	(278,759)	(119,305)
Fund balance, July 1	<u>1,287,964</u>	<u>1,287,964</u>	<u>1,287,964</u>	<u>-</u>
Fund balance, June 30	<u>\$ 1,182,795</u>	<u>\$ 1,128,510</u>	<u>\$ 1,009,205</u>	<u>\$ (119,305)</u>

OTHER SUPPLEMENTAL INFORMATION

HASTINGS AREA SCHOOL SYSTEM
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF REVENUES
YEAR ENDED JUNE 30, 2006

REVENUES

Revenues from local sources	
Current property taxes	\$ 2,705,936
Interest on investments	62,283
Tuition and fees	113,448
Rent	38,028
Sale of school property	584,981
Miscellaneous revenues	<u>51,614</u>
Total revenues from local sources	3,556,290
Revenues from state sources	
Foundation	19,148,244
At Risk	369,424
Early childhood education	99,000
Special education	643,253
Vocational education	79,398
Durant Settlement	30,799
Golden Apple	<u>2,334</u>
Total revenues from state sources	20,372,452
Revenues from federal sources	
Title I	321,975
Handicapped Preschool	4,250
Special education - learning disability	200,471
Title V LEA Allocation	1,381
Technology literacy	5,926
Improving Teacher Quality	150,658
Drug-Free schools	9,854
Voc. Ed - Career and Tech Prep	45,428
Homeland security	9,338
Medicaid outreach	<u>28,160</u>
Total revenues from federal sources	777,441
Revenues from other districts	
Durant settlement	11,722
Other programs	800
Special education - local reimb.	<u>437,074</u>
Total revenues from other districts	<u>449,596</u>
Total revenues	<u><u>\$ 25,155,779</u></u>

HASTINGS AREA SCHOOL SYSTEM
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF OPERATING EXPENDITURES
YEAR ENDED JUNE 30, 2006

INSTRUCTION

Basic Programs

Pre-school

Salaries	\$ 47,553
Employee benefits	24,849
Contracted services	2,214
Supplies and materials	3,673
Capital outlay	-
Other	<u>2,248</u>

Total pre-school instructional expenditures	80,537
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Elementary

Salaries	3,812,819
Employee benefits	1,923,464
Contracted services	1,742
Supplies and materials	113,307
Capital outlay	36,888
Other	<u>5,153</u>

Total elementary instruction expenditures	5,893,373
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Middle/Junior High

Salaries	2,233,584
Employee benefits	1,158,030
Contracted services	4,017
Supplies and materials	53,927
Capital outlay	-
Other	<u>2,305</u>

Total middle/junior high instruction expenditures	3,451,863
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High School

Salaries	2,535,689
Employee benefits	1,311,288
Contracted services	42,561
Supplies and materials	59,483
Capital outlay	5,621
Other	<u>5,512</u>

Total high school instruction expenditures	<u>3,960,154</u>
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Total basic programs	13,385,927
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HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued YEAR ENDED JUNE 30, 2006

INSTRUCTION - Continued

Added Needs

Special education

Salaries	1,233,499
Employee benefits	531,827
Purchased services	-
Supplies and materials	<u>15,789</u>

Total special education instruction expenditures	1,781,115
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Compensatory education

Salaries	502,999
Employee benefits	181,537
Purchased services	16,463
Supplies and materials	3,860
Capital outlay	-
Other	<u>-</u>

Total compensatory education instruction expenditures	704,859
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Vocational education

Salaries	292,226
Employee benefits	137,749
Purchased services	29,551
Supplies and materials	79,884
Capital outlay	-
Other	<u>5,099</u>

Total vocational education instruction expenditures	<u>544,509</u>
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Total added needs	3,030,483
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Adult/Continuing Education

Salaries	34,937
Employee benefits	16,876
Purchased services	-
Supplies and materials	1,028
Capital outlay	-
Other	<u>-</u>

Total adult/continuing education expenditures	<u>52,841</u>
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Total instruction expenditures	16,469,251
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HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued YEAR ENDED JUNE 30, 2006

SUPPORTING SERVICES

Pupil Services

Guidance services

Salaries	277,336
Employee benefits	143,140
Supplies	<u>3,306</u>

Total guidance services 423,782

Other pupil services

Salaries	37,338
Employee benefits	9,708
Contracted services	<u>18,319</u>

Total other pupil services 65,365

Total pupil services 489,147

Instructional Staff Services

Supervision and direction

Salaries	83,185
Employee benefits	44,670
Contracted services	25,280
Supplies	<u>3,414</u>

Total supervision and direction 156,549

Library

Salaries	284,009
Employee benefits	152,510
Supplies and materials	<u>11,650</u>

Total library expenditures 448,169

Total instructional staff services 604,718

General Administrative Services

Board of education

Contracted services	49,229
Other	<u>14,015</u>

Total board of education expenditures 63,244

HASTINGS AREA SCHOOL SYSTEM
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF OPERATING EXPENDITURES - Continued
YEAR ENDED JUNE 30, 2006

SUPPORTING SERVICES - Continued

Executive administration

Salaries	97,000
Employee benefits	38,301
Contracted services	7,524
Other	<u>3,663</u>

Total executive administration expenditures	<u>146,488</u>
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Total general administrative services	209,732
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School Administrative Services

Office of the Principal

Salaries	1,061,378
Employee benefits	623,647
Contracted services	-
Supplies and material	71,217
Capital outlay	<u>556</u>

Total school administrative expenditures	1,756,798
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Business Services

Fiscal charges

Salaries	181,982
Employee benefits	157,863
Contracted services	18,556
Supplies and materials	9,591
Capital outlay	3,105
Other	<u>223,049</u>

Total business services expenditures	594,146
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Operation and Maintenance

Operation and maintenance of plant

Salaries	987,756
Employee benefits	690,099
Contracted services	386,294
Supplies and materials	929,622
Capital outlay	9,191
Other	<u>-</u>

Total operation and maintenance expenditures	3,002,962
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HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued YEAR ENDED JUNE 30, 2006

SUPPORTING SERVICES - Continued

Pupil Transportation

Pupil transportation services

Salaries	378,882
Employee benefits	242,994
Contracted services	56,670
Supplies and materials	164,073
Capital outlay	377,376
Other	<u>1,822</u>

Total pupil transportation services 1,221,817

Technical coordination

Salaries	89,315
Employee benefits	43,381
Contracted services	100,593
Supplies	2,353
Capital outlay	184,300
Other	<u>9,277</u>

Total technical coordination 429,219

Total supporting services expenditures 8,308,539

COMMUNITY SERVICES

Driver education

Salaries	22,324
Employee benefits	53
Contracted services	7,680
Supplies	<u>960</u>

Total community services 31,017

OTHER DISTRICTS

Purchased services 12,679

DEBT SERVICE

Principal repayment	99,985
Interest and fiscal charges	<u>153,219</u>

Total debt service 253,204

TOTAL OPERATING EXPENDITURES \$ 25,074,690

HASTINGS AREA SCHOOL SYSTEM
OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>Special Revenue Funds</u>			
	<u>Food Services</u>	<u>Athletics</u>	<u>Community Center</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 148,818	\$ 1,578	\$ 1,759	\$ 152,155
Accounts receivable	4	-	5,443	5,447
Due from other funds	2,807	1,054	29,192	33,053
Inventory	<u>26,528</u>	<u>-</u>	<u>-</u>	<u>26,528</u>
Total assets	<u>\$ 178,157</u>	<u>\$ 2,632</u>	<u>\$ 36,394</u>	<u>\$ 217,183</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 19,814	\$ 2,632	\$ 26,434	\$ 48,880
Due to other funds	-	-	-	-
Deferred Revenue	<u>-</u>	<u>-</u>	<u>4,827</u>	<u>4,827</u>
Total liabilities	19,814	2,632	31,261	53,707
Fund balances:				
Reserved for inventory	26,528	-	-	26,528
Unreserved:				
Undesignated	<u>131,815</u>	<u>-</u>	<u>5,133</u>	<u>136,948</u>
Total fund balances	<u>158,343</u>	<u>-</u>	<u>5,133</u>	<u>163,476</u>
Total liabilities and fund balances	<u>\$ 178,157</u>	<u>\$ 2,632</u>	<u>\$ 36,394</u>	<u>\$ 217,183</u>

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUND YEAR ENDED JUNE 30, 2006

	<u>Special Revenue Funds</u>			
	<u>Food Services</u>	<u>Athletics</u>	<u>Community Center</u>	<u>Total</u>
Revenues:				
Local sources	\$ 467,351	\$ 148,062	\$ 462,177	\$ 1,077,590
State sources	44,915	-	-	44,915
Federal sources	<u>411,682</u>	<u>-</u>	<u>-</u>	<u>411,682</u>
Total revenues	923,948	148,062	462,177	1,534,187
Expenditures:				
Food services	924,764	-	-	924,764
Athletics	-	393,837	-	393,837
Community services	<u>-</u>	<u>-</u>	<u>576,250</u>	<u>576,250</u>
Total expenditures	<u>924,764</u>	<u>393,837</u>	<u>576,250</u>	<u>1,894,851</u>
Excess (deficiency) of revenues over expenditures	(816)	(245,775)	(114,073)	(360,664)
Other financing sources:				
Operating transfers in	<u>-</u>	<u>245,775</u>	<u>114,073</u>	<u>359,848</u>
Net change in fund balances	(816)	-	-	(816)
Fund balances, July 1	<u>159,159</u>	<u>-</u>	<u>5,133</u>	<u>164,292</u>
Fund balances, June 30	<u>\$ 158,343</u>	<u>\$ -</u>	<u>\$ 5,133</u>	<u>\$ 163,476</u>

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION

FOOD SERVICE FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 464,986	\$ 467,351	\$ 2,365
State sources	42,850	44,915	2,065
Federal sources	<u>409,990</u>	<u>411,682</u>	<u>1,692</u>
Total revenues	917,826	923,948	6,122
Expenditures:			
Salaries	307,240	306,151	(1,089)
Employee benefits	134,600	134,122	(478)
Purchased services	25,980	26,283	303
Supplies, material and other	425,435	426,930	1,495
Capital outlay	<u>31,300</u>	<u>31,278</u>	<u>(22)</u>
Total expenditures	<u>924,555</u>	<u>924,764</u>	<u>209</u>
Net change in fund balance	(6,729)	(816)	5,913
Fund balance - July 1	<u>159,159</u>	<u>159,159</u>	<u>-</u>
Fund balance - June 30	<u>\$ 152,430</u>	<u>\$ 158,343</u>	<u>\$ 5,913</u>

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION

ATHLETIC FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 144,648	\$ 148,062	\$ 3,414
Expenditures:			
Salaries	197,157	197,157	-
Employee benefits	43,815	43,815	-
Purchased services	75,355	76,374	1,019
Supplies, material and other	50,229	51,843	1,614
Capital outlay	<u>24,648</u>	<u>24,648</u>	<u>-</u>
Total expenditures	<u>391,204</u>	<u>393,837</u>	<u>2,633</u>
Excess (deficiency) of revenues over expenditures	(246,556)	(245,775)	781
Other financing sources:			
Operating transfers in	<u>246,556</u>	<u>245,775</u>	<u>(781)</u>
Net change in fund balance	-	-	-
Fund balance - July 1	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION

COMMUNITY CENTER FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 456,142	\$ 462,177	\$ 6,035
State sources	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	456,142	462,177	6,035
Expenditures:			
Salaries	393,537	393,537	-
Employee benefits	104,175	104,175	-
Purchased services	42,483	41,162	(1,321)
Supplies, material and other	34,980	34,394	(586)
Capital outlay	<u>3,000</u>	<u>2,982</u>	<u>(18)</u>
Total expenditures	<u>578,175</u>	<u>576,250</u>	<u>(1,925)</u>
Excess (deficiency) of revenues over expenditures	(122,033)	(114,073)	7,960
Other financing sources:			
Operating transfers in	<u>117,400</u>	<u>114,073</u>	<u>(3,327)</u>
Net change in fund balance	(4,633)	-	4,633
Fund balance - July 1	<u>5,133</u>	<u>5,133</u>	<u>-</u>
Fund balance - June 30	<u>\$ 500</u>	<u>\$ 5,133</u>	<u>\$ 4,633</u>

HASTINGS AREA SCHOOL SYSTEM
 OTHER SUPPLEMENTAL INFORMATION
 AGENCY FUND
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 YEAR ENDED JUNE 30, 2006

	Balances <u>June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	Balances <u>June 30, 2006</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 233,034	\$ 516,375	\$ 501,645	\$ 247,764
Investments	497,628	113,029	205,690	404,967
Accounts receivable	<u>7,207</u>	<u>2,749</u>	<u>7,207</u>	<u>2,749</u>
Total assets	<u>\$ 737,869</u>	<u>\$ 632,153</u>	<u>\$ 714,542</u>	<u>\$ 655,480</u>
<u>LIABILITIES</u>				
Due to school related organizations	<u>\$ 737,869</u>	<u>\$ 632,153</u>	<u>\$ 714,542</u>	<u>\$ 655,480</u>

HASTINGS AREA SCHOOL SYSTEM
OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
YEAR ENDED JUNE 30, 2006

2004 SCHOOL REFUNDING BONDS \$ 4,020,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	4.00	\$ 127,350	\$ 1,000,000	\$ 1,127,350
2008	5.00	87,350	1,020,000	1,107,350
2009	3.00	36,350	465,000	501,350
2010	<u>4.00</u>	<u>22,400</u>	<u>560,000</u>	<u>582,400</u>
Total		<u>\$ 273,450</u>	<u>\$ 3,045,000</u>	<u>\$ 3,318,450</u>

Interest on the bonds of the above issue is payable semi-annually on November 1, and May 1. Principal is payable annually on May 1.

HASTINGS AREA SCHOOL SYSTEM
OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
YEAR ENDED JUNE 30, 2006

1998 REFUNDING BONDS

\$ 7,340,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	4.100	\$ 310,270	\$ 45,000	\$ 355,270
2008	4.150	308,426	50,000	358,426
2009	4.200	306,350	640,000	946,350
2010	4.200	279,470	600,000	879,470
2011	4.300	254,270	625,000	879,270
2012	4.350	227,396	650,000	877,396
2013	4.400	199,120	680,000	879,120
2014	4.500	169,200	710,000	879,200
2015	4.500	137,250	735,000	872,250
2016	4.500	104,176	770,000	874,176
2017	4.500	69,526	775,000	844,526
2018	4.500	<u>34,650</u>	<u>770,000</u>	<u>804,650</u>

Total \$ 2,400,104 \$ 7,050,000 \$ 9,450,104

Interest on the bonds of the above issue is payable semi-annually on November 1, and May 1. Principal is payable annually on May 1. Callable maturities year 2010 through 2018 on May 1, 2009 @ 100% of par.

HASTINGS AREA SCHOOL SYSTEM
OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
YEAR ENDED JUNE 30, 2006

1999 REFUNDING BONDS

\$ 6,375,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	4.050	\$ 277,150	\$ 35,000	\$ 312,150
2008	4.100	275,732	35,000	310,732
2009	4.150	274,298	40,000	314,298
2010	4.200	272,638	40,000	312,638
2011	4.300	270,958	655,000	925,958
2012	4.350	242,792	685,000	927,792
2013	4.400	212,996	715,000	927,996
2014	4.500	181,536	750,000	931,536
2015	4.550	147,786	785,000	932,786
2016	4.600	112,068	800,000	912,068
2017	4.650	75,268	805,000	880,268
2018	4.700	<u>37,836</u>	<u>805,000</u>	<u>842,836</u>

Total \$ 2,381,058 \$ 6,150,000 \$ 8,531,058

Interest on the bonds of the above issue is payable semi-annually on November 1, and May 1. Principal is payable annually on May 1. Callable maturities year 2010 through 2018 on May 1, 2009 @ 100% of par.

HASTINGS AREA SCHOOL SYSTEM
OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
YEAR ENDED JUNE 30, 2006

2001 SCHOOL BUILDING AND SITE BONDS
(NON-REFUNDED PORTION)

\$ 1,995,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	4.000	\$ 69,774	\$ 315,000	\$ 384,774
2008	4.000	57,174	325,000	382,174
2009	4.125	44,174	335,000	379,174
2010	4.250	30,356	350,000	380,356
2011	4.300	<u>15,480</u>	<u>360,000</u>	<u>375,480</u>
Total		<u>\$ 216,958</u>	<u>\$ 1,685,000</u>	<u>\$ 1,901,958</u>

Interest on the bonds of the above issue are payable semi-annually on November 1, and May 1. Principal is payable annually on May 1.

HASTINGS AREA SCHOOL SYSTEM
OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
YEAR ENDED JUNE 30, 2006

2005 REFUNDING BONDS

\$ 6,575,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	3.00	\$ 281,502	\$ 25,000	\$ 306,502
2008	3.25	280,752	30,000	310,752
2009	3.50	279,776	30,000	309,776
2010	3.50	278,726	30,000	308,726
2011	4.00	277,676	30,000	307,676
2012	5.00	276,476	405,000	681,476
2013	5.00	256,226	420,000	676,226
2014	5.00	235,226	430,000	665,226
2015	5.00	213,726	455,000	668,726
2016	4.00	190,976	490,000	680,976
2017	4.00	171,376	565,000	736,376
2018	4.00	148,776	655,000	803,776
2019	4.00	122,576	745,000	867,576
2020	4.10	92,776	745,000	837,776
2021	4.125	62,232	745,000	807,232
2022	4.20	<u>31,500</u>	<u>750,000</u>	<u>781,500</u>

Total \$ 3,200,298 \$ 6,550,000 \$ 9,750,298

Interest on the bonds of the above issue is payable semi-annually on November 1, and May 1. Principal is payable annually on May 1.

HASTINGS AREA SCHOOL SYSTEM
OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
YEAR ENDED JUNE 30, 2006

2006 REFUNDING BONDS

\$ 3,190,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	4.000	\$ 148,220	\$ -	\$ 148,220
2008	4.000	129,512	-	129,512
2009	4.000	129,512	-	129,512
2010	4.000	129,512	-	129,512
2011	4.000	129,512	-	129,512
2012	4.000	129,512	-	129,512
2013	4.000	129,512	-	129,512
2014	4.000	129,512	-	129,512
2015	4.000	129,512	-	129,512
2016	4.000	129,512	-	129,512
2017	4.000	129,512	-	129,512
2018	4.000	129,512	-	129,512
2019	4.000	129,512	30,000	159,512
2020	4.000	128,312	30,000	158,512
2021	4.000	127,112	30,000	157,512
2022	4.000	125,912	30,000	155,512
2023	4.000	124,712	775,000	899,712
2024	4.000	93,712	765,000	858,712
2025	4.125	63,112	755,000	818,112
2026	4.125	<u>31,968</u>	<u>775,000</u>	<u>806,968</u>

Total \$ 2,397,204 \$ 3,190,000 \$ 5,587,204

Interest on the bonds of the above issue is payable semi-annually on November 1, and May 1. Principal is payable annually on May 1.

1998 SCHOOL IMPROVEMENT BONDS	\$	307,985
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<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	4.76	\$ 6,010	\$ 15,614	\$ 21,624
2008	4.76	5,267	16,361	21,628
2009	4.76	4,488	17,140	21,628
2010	4.76	3,672	17,956	21,628
2011	4.76	2,817	18,811	21,628
2012	4.76	1,921	19,705	21,626
2013	4.76	<u>983</u>	<u>20,644</u>	<u>21,627</u>
Total		\$ <u>25,158</u>	\$ <u>126,231</u>	\$ <u>151,389</u>

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HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2006

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
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U.S. Department of Education

Passed Through State Department
of Education:

Title I - Educationally Deprived	84.010	0515300405 0615300506	\$ 348,330 317,645
Handicapped Preschool	84.027	060440SPSR	4,250
Title V LEA Allocation	84.298	0602500506	1,381
Technology Literacy	84.318	0642900506	5,926
Improving Teacher Quality	84.367	0605200506	150,658

Passed Through Intermediate
School District:

Voc. Ed - Career and Tech Prep	84.048		45,428
P.L. 101-476 IDEA Emotionally Impaired	84.027	IDEA/05-06	200,471
Drug-Free Schools	84.186		9,854

TOTAL DEPARTMENT OF EDUCATION

U.S. Department of Homeland Security

Passed Through Michigan State Police:

2003 State Homeland Security Grant	97.004		9,338
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(continued on next page)

Accrued (Deferred) Revenue <u>July 1, 2005</u>	(Memo only) Prior Year Expenditures	Expenditures	Receipts	Accrued (Deferred) Revenue <u>June 30, 2006</u>
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\$ -	\$ 344,000	\$ 4,330	\$ 4,330	\$ -
-		<u>317,645</u>	<u>275,157</u>	<u>42,488</u>
-		321,975	279,487	-
-		4,250	4,250	-
-		1,381	1,381	-
-		5,926	4,754	1,172
-		<u>150,658</u>	<u>121,377</u>	<u>29,281</u>
-		484,190	411,249	72,941
-		45,428	45,428	-
-		200,471	200,471	-
-		<u>9,854</u>	<u>9,854</u>	<u>-</u>
-		739,943	667,002	72,941
-		9,338	9,338	-

HASTINGS AREA SCHOOL SYSTEM

OTHER SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued YEAR ENDED JUNE 30, 2006

<u>Federal Grantor/Pass-Through Grantor/ Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
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U.S. DEPARTMENT OF AGRICULTURE

Nutrition Cluster

Passed Through State Department
of Education:

National School Lunch Program	10.555	05-06 04-05	257,127 270,459
National School Lunch Breakfast	10.553	05-06 04-05	48,594 47,210
Food Distribution			
Entitlement Commodities	10.550	05-06	67,053
Bonus Commodities		05-06	3,805

TOTAL DEPARTMENT OF AGRICULTURE

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Passed Through Intermediate
School District:

Medicaid Outreach	93.778		28,160
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TOTAL FEDERAL FINANCIAL ASSISTANCE

Notes:

- 1.*Designates Major Program.
2. Dollar threshold used to distinguish between Type A and Type B programs - \$300,000.
3. Expenditures in this schedule are in agreement with amounts reported in the financial statements.
4. The amounts reported on the R7120 reconcile with this schedule.

Accrued (Deferred) Revenue July 1, 2005	(Memo only) Prior Year Expenditures	Expenditures	Receipts	Accrued (Deferred) Revenue June 30, 2006
-		257,127	257,127	-
-	239,364	31,095	31,095	-
-		* 288,222	288,222	-
-		48,594	48,594	-
-	43,202	4,008	4,008	-
-		* 52,602	52,602	-
-		67,053	67,053	-
-		3,805	3,805	-
-		70,858	70,858	-
-		411,682	411,682	-
-		28,160	28,160	-
\$ -		\$ 1,189,123	\$1,116,182	\$ 72,941



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Jerrel T. Norman (1941-1982)

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Hastings Area School System, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hastings Area School System, as of and for the year ended June 30, 2006, which collectively comprise the Hastings Area School System's basic financial statements and have issued our report thereon dated November 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered Hastings Area School System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether Hastings Area School System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Norman & Paulsen, P.C.

November 8, 2006



Norman & Paulsen, P.C.

Certified Public Accountants

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Hastings Area School System, Michigan

Compliance - We have audited the compliance of Hastings Area School System with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Hastings Area School System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hastings Area School System's management. Our responsibility is to express an opinion on Hastings Area School System's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local governments, and Non-Profit Organizations*. Those standards and OMB circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hastings Area School System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hastings Area School System's compliance with those requirements.

In our opinion, Hastings Area School System complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

Internal Control over Compliance - The management of Hastings Area School System is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Hastings Area School System's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Norman J. Paulson, P.C.

November 8, 2006

HASTINGS AREA SCHOOL SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

1. Summary of auditor's results:

- (I) An unqualified opinion was issued on the financial statements.
- (ii) No reportable conditions in internal control were disclosed by the audit of the financial statements.
- (iii) The audit disclosed no noncompliance.
- (iv) No reportable conditions in internal control over major programs were disclosed by the audit.
- (v) An unqualified opinion was issued on Compliance for major programs.
- (vi) No audit findings were disclosed.
- (vii) Major programs: U.S. Department of Agriculture
Nutrition Cluster
- (viii) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- (ix) Hastings Area School System qualified as a low-risk auditee.

2. Findings relating to the financial statements which are required to be reported in accordance with GAGAS.

NONE

3. Findings and questioned costs for Federal awards.

NONE